

Message Text

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ACTION NEA-10

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E.O. 11652 N/A

TAGS: ECRE BENC NP

SUBJ: MAJOR PROJECT: KULEKHANI HYDROELECTRIC

REF: 76 KATHMANDU 4743

1. SUMMARY. WITH PROBABILITY THAT SUBJECT PROJECT MAY HAVE TO BE RETENDERED OR AWARDED ON NEGOTIATED BASIS, WE WOULD LIKE TO EXPLORE POSSIBILITY OF RE-INVOLVING U.S. COMPANY. REQUEST DEPARTMENT AND MEPD OPINION AS TO WHATHER INTENT OF U.S. ANTI-BOYCOTT LEGISLATION WAS TO EXCLUDE U.S. COMPANIES FROM PROJECTS SUCH AS THIS AND, IF NOT, WHETNER SOME SOLUTION TO THE IMPASSE SEEMS FEASIBLE. REQUEST REPLY ASAP IN VIEW OF NEED FOR TIMELY ACTION. END SUMMARY.

2. REFTEL INFORMED THAT MORRISON-KNUDSEN DROPPED OUT OF SUBJECT PROJECT COMPETITION DUE TO U.S. ANTI-BOYCOTT LEGISLATION. ONLY TWO BIDS (JAPANESE AND SOUTH KOREAN) SUBSEQUENTLY HAVE BEEN RECEIVED BY GON PROJECT BOARD. BOTH WERE SO MUCH IN EXCESS OF PROGRAMMED ESTIMATE FOR CIVIL WORKS OF \$40 MILLION (\$65 MILLION FROM THE KOREANS AND \$70 MILLION FOR THE JAPANESE) THAT IT HAS THROWN THE PROJECT BOARD INTO TURMOIL. IT IS UNLIKELY THAT SUBSTANTIAL LIMITED OFFICIAL USE

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ADDITIONAL FUNDING CAN BE ARRANGED. GON MUST THEREFORE NOW ATTEMPT TO BARGAIN THE BIDDERS DOWN TO AN ACCEPTABLE LEVEL. FAILING IN THAT, ONLY ALTERNATIVES WILL BE TO RETENDER, OR TO ATTEMPT TO BRING IN SOME OTHER COMPANY ON A NEGOTIATED BASIS.

3. ASIDE FROM THE LOSS OF A POTENTIAL \$40 MILLION CONTRACT

TO A U.S. COMPANY, WE ARE ALSO CONCERNED ABOUT SITUATION BECASUE THE SUBSTANTIAL DELAY OF THIS PROJECT WHICH NOW SEEMS LIELY WILL HAVE AN EXTREAMELY DELETERIOUS EFFECT ON NEPAL'S DEVELOPMENT PLANS. A SUBSTANTIAL SHORT TERM POWER SHORTAGE IN CENTRAL NEPAL WAS ALREADY IN PROSPECT PENDING COMPLETION OF THE PROJECT IN 1981. THE LOSS OF ANOTHER YEAR OR MORE COULD MAKE THIS SHORTAGE CRITICAL, UNDERCUTTING THE DEVELOPMENT EFFORT WHICH WE ARE SUPPORTING BOTH DIRECTLY THROUGH OUR AID PROGRAM AND THROUGH OUR CONTRIBUTIONS TO THE MULTILATERAL AGENCIES ACTIVE HERE..

4. WE THEREFORE WOULD LIKE TO EXPLORE TRE POTENTIAL FOR FINESSING THE ANTI-BOYCOTT PROBELM. IF MORRISON-KNUDSEN COULD BE REASSURED ON THIS POINT AND REINTERESTED IN THE PROJECT, THERE IS A GOOD POSSIBIOITY THAT THEY COULD BE BROUGHT IN ON A PRIORITY BASIS UNDER A NEGOTIATED CONTRACT. REQUEST THE DEPARTMENT'S AND MEPD'S OPINION ON (A) WHETHER IT WAS THE INTENT OF TH ANTI-BOYCOTT LEGISLATION TO PRECLUDE U.S. COMPANY PARTICIPATION ON PROJECTS SUCH AS THIS, I.E., ESSENTIALLY A WORLD BANK PROJECT WITH ONLY A MODICUM OF KUWAIT FUND FINANCING, AND (B) IF NOT, WHETHER IT IS POSSIBLE TO GIVE M-K ASSURANCES OR AT LEAST ENCOURAGEMENT IN THIS REGARD. IF IT IS FELT THAT THERE IS OME POSSIBILITY OF SALVAGING THIS PROJECT. MEPD MIGHT LIKE TO CONT:5 .-K PRESIDENT W. H. MCMURREN TO DISCUSS THE SITUATION.
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